Performance Audit Report

West Side Initiative

Property Acquisition Costs and Relocation Expenses

For Projects Completed as of May 15, 2001

January 2002

City of Baltimore
Department of Audits

CITY OF BALTIMORE

MARTIN O'MALLEY, Mayor

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Honorable Joan M. Pratt, Comptroller
And Other Members of the Board of Estimates
City of Baltimore

We conducted an audit of the property acquisition costs and relocation expenses for the West Side Initiative projects that were completed as of May 15, 2001. The purpose of our audit was to determine the methodology and procedures used to calculate the amounts paid for the acquisition of properties and the related relocation expenses, to evaluate whether the methodology and procedures were reasonable and consistently applied in accordance with management's policies and applicable regulations/requirements, and to determine whether the reported acquisition costs and relocation expenses were supported by adequate documentation.

As part of the West Side Initiative, the City established a policy to reimburse displaced business owners for inventory losses. The net payments for claims of inventory losses totaled $2.4 million, or 72% of the total relocation expenses. Although federal funds were not used for relocation expenses, the amounts paid to the displaced business owners were determined, primarily, by following the federal guidelines for relocation assistance and real property acquisitions, except for the claims of inventory losses. Payments for those claims were based on the costs of the inventory as reported by the displaced business owners, minus the proceeds from any sales. If federal guidelines had been followed, the payment for those claims could not have exceeded the lower of the cost of the goods to the business or the estimated cost of moving the items. However, estimated costs for moving the inventories were not obtained and compared to the reported inventory costs, and there were no assurances that the reported inventory amounts represented the actual costs to the businesses. Consequently, we question the $2.4 million spent to reimburse businesses for inventory losses. Although we could not quantify the amount of any savings that the City may have realized if it had followed the federal guidelines, we believe the savings would have been substantial. For example, in one case, based upon available information contained in the Department of Housing and Community Development's Office of Acquisition and Relocation (HCD) files, the City could have saved almost $120,000 if it reimbursed one of the displaced business owners for the cost to move the inventory rather than for the reported inventory amount. In another case, the claim for direct loss of tangible personal property – inventory included $167,560 for pager customer accounts. We question whether those accounts should have been considered as tangible personal property.

We also noted other areas that could be improved and question $80,000 for payments of reestablishment expenses because the claims were based on estimates rather than on documentation to support actual expenses incurred. We also question $27,114 as well as other potential overpayments that could not be quantified because of the lack of documentation or the inconsistent manner in which the claims were determined. In addition to the questioned costs and potential overpayments that could not be quantified, we identified overpayments, totaling $82,698.

We recommend that the City determine whether it is economically feasible to continue its policy of reimbursing the displaced business owners for inventory losses. If the policy is continued, we recommend that the City consider adopting the applicable federal guidelines, which we believe will result in substantial savings. We also recommend that the payment for inventory losses be made only for tangible personal property and that the City require adequate documentation, such as paid invoices or bills that clearly identify the inventory items and the related costs, from the displaced business owners to substantiate the costs of the inventory losses claimed.

We also recommend that:

- The methodology and procedures used to determine the amounts paid to displaced businesses be applied consistently.

- HCD reevaluate the manner in which it calculates the amounts paid for the costs incurred in attempting to sell items that will not be relocated.

- HCD base the payments for reestablishment expenses on actual expenses incurred in relocating and reestablishing businesses at replacement sites.

- HCD require adequate documentation to support the claims for reestablishment expenses.

Respectfully submitted,

Yovonda D. Brooks, CPA
City Auditor

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Background Information

The West Side Initiative is a public and private partnership organized to renew the west side of downtown Baltimore into a vibrant community that supports the continued growth of the university and health institutions, the development of market rate housing units, the expansion of cultural institutions, the restoration of the Hippodrome Theater, new parking garage spaces and retail activity supported by new development. The overall area for the West Side Initiative is bounded by Liberty Street, Preston Street, Martin Luther King Boulevard and Pratt Street. Significant partners in the West Side Initiative include the University of Maryland and University Health Systems, the Weinberg Foundation, the Greater Baltimore Committee, the Maryland Stadium Authority, local and national developers, and existing businesses.

In May 1999, the Mayor and City Council approved amendments to the Market Center Urban Renewal Plan giving the City the authority to acquire and assemble certain properties for redevelopment. As of May 15, 2001, the City spent approximately $19.8 million for the West Side Initiative ($16.5 million to acquire 30 properties and $3.3 million to compensate 32 displaced businesses occupying those properties).

Funding Sources For The West Side Initiative

Funding for the West Side Initiative consisted of $6,915,880 from City Economic Development/General Obligation Bonds, $6,000,000 from Industrial Revenue Bonds, $3,194,000 from Parking Revenue Funds, $3,571,534 from Federal National Mortgage Association Loan Funds, and $136,540 from Community Development Finance Corporation Loan Funds. According to the Baltimore Development Corporation (BDC), federal funds were not used for the West Side Initiative acquisition costs and relocation expenses.

Methodology Used to Determine Claim Amounts

BDC is the coordinator between the City and the property owners and displaced businesses for the West Side Initiative. The primary costs incurred for compensating displaced property owners and businesses consist of costs to acquire properties and costs to relocate displaced businesses. METROVENTURES/USA, Inc. (METROVENTURES), through a contract with BDC, provides comprehensive services for the acquisition of real property. The Department of Housing and Community Development's Office of Acquisition and Relocation (HCD) administers the relocation of displaced businesses occupying the acquired buildings. Although federal funds were not used for acquisition costs and relocation expenses, the amounts paid to the displaced property owners and businesses were determined, primarily, by following the guidelines provided in Part 24 – *Uniform Relocation Assistance and Real Property Acquisition For Federal and Federally Assisted Programs* (rules to implement the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970). BDC believed that the application of federal guidelines would enhance uniformity in the acquisition and relocation process.

Real Property Acquisition Costs

According to federal guidelines, the amount offered to acquire property from displaced owners cannot be less than the approved appraisal of the fair market value of the property, taking into account the value of allowable damages or benefits to any remaining property. BDC obtains two appraisals for each property to be acquired. METROVENTURES and the City's Department of Real Estate review the appraisals. After the reviews and the resolution of any questions that may have arisen, the City offers an amount to the property owner, based on the higher of the two appraisals. The property owner is given an opportunity to review the offer, present material relevant to determining the value of the property and to suggest modification in the proposed terms and conditions of the purchase. Property owners may also obtain their own appraisals.

If the information presented by the owner or a material change in the character or condition of the property indicates the need for new appraisal information, or if a significant delay has occurred since the original appraisal date, BDC obtains an updated appraisal. METROVENTURES and the Department of Real Estate review the material presented by the property owner as well as any updated appraisals and, if warranted, the City submits an updated offer to the property owner. The City and the property owner attempt to negotiate a purchase price. The negotiated purchase price may exceed the appraisal amount when it is determined to be reasonable, prudent, and in the public's interest.

If the property owner does not accept the amount offered, the City begins the condemnation process and deposits funds (based on the most current, highest appraisal amount) with the Circuit Court of Baltimore City. The amount offered by the City is subject to negotiations until the condemnation process is finalized. If a purchase price is not agreed upon before final condemnation, the City is bound by the final determination of the value of the property established at the condemnation proceedings.

Relocation Expenses

According to federal guidelines, displaced businesses are entitled to payments for reasonable and necessary actual moving and related expenses. The reimbursement may be limited to the amount required to accomplish the objective of the payment by the least costly method that does not cause undue hardship. Claims for relocation payments shall be supported by documentation to support expenses incurred, such as invoices, certified prices, appraisals, or other evidence.

Moving Expenses

HCD requires displaced businesses choosing to use a commercial mover to obtain three bids or estimates for the move. The displaced business owner is paid the amount of the lowest bid. If a displaced business owner elects to take full responsibility for the move (self-move), the owner may be paid an amount for moving expenses not to exceed the lower of two acceptable bids or estimates obtained by HCD or prepared by qualified staff. Payment for a low-cost or uncomplicated move may be based on a single bid or estimate. HCD pays the displaced business owners electing a self-move 80% of the low bid amount. According to HCD, the 20% reduction is to eliminate profit and overhead included in the bids of the commercial movers.

Actual Direct Loss of Tangible Personal Property
According to federal guidelines, the payment for actual direct loss of tangible personal property incurred as a result of moving or discontinuing the business shall be the lesser of:

a) The fair market value of the item for continued use at the displacement site, less the proceeds from its sale. (To be eligible for payment, the claimant must make a good faith effort to sell the personal property, unless it is determined that such effort is not necessary.) Payment for the loss of goods held for sale shall not exceed the cost of the goods to the business; or

b) The estimated cost of moving the item, but with no allowance for storage. If the business is discontinued, the estimated cost shall be based on a moving distance of 50 miles.

HCD obtains appraisals for the value of tangible personal property (furniture, fixtures and equipment). The appraised value is based on the continued use of the items at the displacement site. HCD also obtains two bids for moving the personal property and selects the lower amount. HCD compares the appraised value for personal property to the lower of the two cost estimates for moving those items and pays the business owner the lower of those two amounts. Comparisons of appraised values and estimated moving costs are made on an individual basis for each item valued at more than $500.

The payment amounts for the loss of goods held for sale (inventory) are determined by using the costs of the inventory as reported by the displaced business owner minus the proceeds from any sales.

Other Moving and Related Expenses
Other allowable moving and related expenses include the following:

a) Storage of personal property for a period not to exceed 12 months.

b) Insurance for the replacement value of the personal property in connection with the move and necessary storage.

c) The replacement value of property lost, stolen, or damaged in the process of moving.

d) Re-lettering signs and replacing stationery on hand.

e) The reasonable cost incurred in attempting to sell an item that is not to be relocated.

f) Searching for a replacement location (not to exceed $1,000).

g) Other moving and related expenses not listed in the federal guidelines as ineligible.

Reestablishment Expenses

In addition to payments for the relocation expenses described above, a small business (defined as a business not having more than 500 employees working at the site being acquired or displaced) is entitled to receive a payment, not to exceed $10,000, for expenses actually incurred in relocating and reestablishing the business at a replacement site. Reestablishment expenses must be reasonable and necessary and may include the following:

a) Repairs or improvements to the replacement real property as required by federal, state or local law, code or ordinance.

b) Modifications to the replacement property to accommodate the business operation or make replacement structures suitable for conducting business.

c) Construction and installation costs for exterior signing to advertise the business.

d) Redecoration or replacement of soiled or worn surfaces at the replacement site, such as paint, paneling, or carpeting.

e) Feasibility surveys, soil testing and marketing studies.

f) Advertisement of replacement location.

g) Estimated increased costs of operation during the first two years at the replacement site for such items as lease or rental charges, personal or real property taxes, insurance premiums, and utility charges.

h) Other items considered essential to the reestablishment of the business.

Fixed Payment for Moving Expenses

A displaced business owner may be eligible to choose a fixed payment in lieu of the payments for actual moving and related expenses, and actual reasonable reestablishment expenses. The amount of the payment is equal to the average annual net earnings of the business for the preceding two years, with a minimum amount of $1,000 and a maximum amount of $20,000.

Schedules of Property Acquisitions and Relocation Expenses

Exhibit I - Schedule of Property Acquisitions

The paid amount for properties listed as purchased represents the negotiated purchase prices paid to the property owner. The paid amount for properties listed as condemnations represents the amounts deposited with the Circuit Court of Baltimore City, awaiting condemnation hearings. The amount deposited is based on the most current, highest adjusted appraisal. The purchase price offered by the City is subject to negotiations until the condemnation process is finalized. If a purchase price is not agreed upon before final condemnation, the City is bound by the final determination of the value of the property established at the condemnation proceedings.

In addition to the properties included on Exhibit I, the Board of Estimates approved a Land Disposition Agreement in which the City acquired 226-232 West Lexington Street (the Stewart's Building) for $1,500,000 and immediately conveyed the property to the developer (Harry and Jeanette Weinberg Foundation) for the same amount. The Board of Estimates also approved the payment of relocation expenses for existing tenants of the building.

Exhibit II - Schedule of Relocation Expenses

The amounts for direct losses of tangible personal property (personal property and inventory) represent the net claims paid to the businesses. The net claim paid for personal property losses represents the lesser of the appraised value of the items for continued use at the displacement site, minus any proceeds from its sale, plus the cost of the sale (auctioneer and advertising expenses) or the estimated cost to move the items. The net claim paid for inventory losses represents the cost of the inventory as reported by the business owner, minus any proceeds from its sale, plus the cost of the sale. Approximately $3 million, or 89%, of the $3.3 million of relocation expenses shown on Exhibit II were for claims of direct losses of tangible personal property. In addition to the amounts shown on Exhibit II, the City paid more than $25,000 directly to vendors for moving estimates and appraisals.

AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We conducted an audit of the property acquisition costs and relocation expenses for the West Side Initiative projects that were completed as of May 15, 2001. Our audit was conducted in accordance with generally accepted *Government Auditing Standards* related to performance audits, issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

The objectives of our audit were to determine the methodology and procedures used to calculate the amounts paid for the acquisition of properties and the related relocation expenses, to evaluate whether the methodology and procedures were reasonable and consistently applied in accordance with management's policies and applicable regulations/requirements, and to determine whether the reported acquisition costs and relocation expenses were supported by adequate documentation.

To accomplish our objectives, we obtained schedules of the acquisition costs and relocation expenses for the West Side Initiative. We spoke with various personnel from HCD, the Department of Law and the Department of Real Estate, as well as the BDC and METROVENTURES to obtain an understanding of the methodology and procedures used to determine the amounts paid for acquisition costs and relocation expenses. Additionally, we reviewed applicable forms, documents and reports used to account for the property acquisition costs and relocation expenses. We also performed various tests to determine whether the acquisition costs and relocation expenses were supported by adequate documentation, such as appraisals, certified prices, paid invoices and bills, or other evidence.

Our audit findings and recommendations are detailed in the Findings and Recommendations section of this report. The joint response of BDC and HCD to our findings and recommendations and an outline of the acquisition and relocation process that will be followed are included as an appendix to this report.

Findings and Recommendations

Reasonableness of Procedures for Determining Claim Amounts

Background

According to federal guidelines, reimbursements for relocation expenses may be limited to the amount required to accomplish the objective of the payment by the least costly method that does not cause undue hardship. The payment for the loss of goods held for sale (inventory) shall not exceed the cost of the goods to the business or the estimated cost of moving the items. If the business is discontinued, the estimated cost shall be based on a moving distance of 50 miles. The most significant portion of the relocation expenses ($2.4 million, or 72% of the total relocation expenses) represents payments for claims of inventory losses. Although federal funds were not used for acquisition costs and relocation expenses, the amounts paid to the displaced property owners and businesses were determined, primarily, by following the federal guidelines for relocation assistance and property acquisitions, except for claims of inventory losses. Payments for claims of inventory losses were based on the cost of the inventory as reported by the business owner, minus the proceeds from any sales of those items, plus the cost of those sales.

Finding #1
The procedures for determining claim amounts to reimburse displaced business owners for inventory losses resulted in higher costs to the City than if federal guidelines had been followed. Estimated costs for moving the inventories were not obtained and compared to the reported inventory amounts, and there were no assurances that the reported inventory amounts represented the actual costs to the businesses.

Analysis
The procedures for determining claim amounts to reimburse displaced business owners for inventory losses resulted in higher costs to the City than if federal guidelines had been followed. Estimated costs for moving the inventories were not obtained and compared to the reported inventory amounts, and there were no assurances that the reported inventory amounts represented the actual costs to the businesses. We believe that the use of federal guidelines that require claims to be paid based upon the lesser of the cost of the inventory or the estimated moving cost would have resulted in substantial savings to the City. For example, the estimated cost for moving the personal property of a shoe store from 201 N. Howard Street to 237 N. Howard Street was $29,750. Although an estimate for moving the inventory was not obtained and compared to the reported cost of the inventory, correspondence in HCD's files refers to a moving estimate that was reduced to $20,750 (a reduction of $9,000) because the business owner chose to sell the inventory rather than have it moved. The business owner reported an inventory cost of $143,926 for 6,956 pairs of shoes. The entire inventory was sold at auction for $15,840. Therefore, instead of reimbursing the business owner $9,000 to move the inventory, the City paid $128,086, or $119,086 more, to compensate the business owner for the difference between the reported inventory cost and the proceeds from sales ($143,926 less $15,840).

Also, the reported cost of the shoe store inventory could not be verified. Correspondence from the attorneys representing the shoe store owner indicated that the owner would provide copies of invoices for the inventory. Documentation in HCD's files included copies of documents purportedly representing invoices; however, the documents appear to be hand-written listings of the inventory items and applicable costs. These listings were presumably prepared by the shoe store owner or his personnel, and evidence of the actual costs paid for these items was not provided. The documents were consecutively numbered, shoes from more than one company were listed on the same document, and the documents were not signed or dated.

In another case, a jewelry store (King of Lexington) reported inventory costing $1,050,547. The support consisted of numerous sheets of paper with hand-written general descriptions of items (ladies gold watches, men's gold watches, assorted 10K earrings, etc.) and the applicable wholesale amounts. Since the files did not contain paid invoices for the items, we could not determine whether the reported wholesale amounts represented the actual costs paid by the business owner. The jewelry store owner reported that he sold the more than $1 million inventory in its entirety for $425,000. The City, therefore, reimbursed the owner for the $625,547 reported loss. Again, we believe that the cost to move the inventory a distance of 50 miles (since the owner chose to discontinue the business) would have been substantially less.

HCD's files contained documentation, such as receipts or paid invoices, to support the reported inventory costs for a few of the businesses claiming inventory losses. However, even in those cases, verification of the reported inventory costs would have been impractical, if not impossible, because the invoices and inventory listings were sometimes difficult to read and as stated above, contained general descriptions of the items. Also, one of the claims for direct loss of tangible personal property (Genesis Wholesale Company) was based entirely on information furnished by the business owner because an auctioneer was not used for the sale of those items. The business owner was paid $55,577, based on reported personal property and inventory of $118,400 less closing sales of $62,823. The records did not indicate what was done with the unsold items.

One claim for direct loss of tangible personal property included $167,560 for pager customer accounts. The owner of a record store (Inner City Records) elected to close the business and was paid $532,571 as a direct loss of tangible personal property ($484,704 for inventory losses, $30,800 for the loss of personal property – furniture, fixtures and equipment, and $17,067 for the cost of selling the property). The reported inventory loss consisted of inventory reported at $400,078 (including $152,164 for 3,814 pagers and $167,560 for 4,189 pager customer accounts, less the net auction proceeds of $82,933). We question whether a list of customer accounts should have been considered as tangible personal property. Tangible personal property generally includes furniture, fixtures, office and industrial equipment, machinery, and inventory. It is our understanding that customers may pay for pager account contracts yearly, semi-annually, quarterly or monthly. HCD requested that Inner City Records furnish a dollar amount of the remaining income for the customer pager account contracts. However, other than a listing of customer names and pager phone numbers, there was no evidence in HCD's files to support the existence of the contracts, the amounts paid by the customers and the remaining lives of the contracts. Also, there was no evidence in the files to determine whether any of the customers paid in advance for the pager services, especially for yearly or semi-annual contracts. According to a letter in HCD's files, the pager customer list was valued at $40 for each number, based on an

agreement reached at a meeting attended by the City's Department of Law, HCD, BDC, and the attorney representing the record store. The nature of the questioned item did not lend itself to a comparison of the cost of the contracts to the estimated cost to move the items, as is normally done for determining the loss of tangible personal property.
(Results in questioned costs of $2.4 million.)

Recommendation #1
We recommend that the City determine whether it is economically feasible to continue the policy of reimbursing the displaced business owners for inventory losses. If the policy is continued, we recommend that the City consider adopting the applicable federal guidelines, which we believe will result in substantial savings. We also recommend that the payment for inventory losses be made only for tangible personal property. We further recommend that the City require adequate documentation, such as paid invoices or bills that clearly identify the inventory items and the related costs, from the displaced business owners to substantiate the costs of the inventory losses claimed.

Consistent Application of Methodology and Procedures

Finding #2
The methodology and procedures used to determine the amounts paid to displaced businesses were not consistently applied.

Analysis
The methodology and procedures used to determine the amounts paid to displaced businesses were not consistently applied.

- As part of the claims for moving and related expenses, a displaced business owner may choose between using a commercial mover or performing a self-move. If the owner elects to take full responsibility for the move (self-move), the amount paid may not exceed the lower of two acceptable bids or estimates obtained by HCD or prepared by qualified staff. When a self-move is elected, HCD's policy is to reduce the low bid by 20% to eliminate profit and overhead included in the commercial movers' bids. Nine of the eleven business owners claiming moving expenses elected to perform self-moves. In one case (Bare Feet, Inc.), HCD did not reduce the commercial bids by 20%, resulting in an overpayment of $4,150. In another case (Gimani's Hair Design), the 20% reduction was incorrectly calculated, resulting in an overpayment of $1,800. In another case (N.Y. 47th Street Jewelry), commercial bids were not obtained. Instead, the owner submitted a self-move claim for $10,428 based on the following:

110 hours @ $55 an hour for the owner		$ 6,050
110 hours @ $25 an hour for the owner's wife		2,750
Flat fee for the daughter's time		700
Cleaning and polishing the floor - 16 hours @ $58 an hour		928
Total		$ 10,428

HCD reduced the claim by 50% and paid the displaced business owner $5,214. HCD also paid the same owner $3,400 for a self-move of a large polishing machine and a roll machine. However, the business owner was overpaid $2,400 because the amount of the claim consisted of the appraised values of the two items ($2,400) and a self-move cost of $1,000, rather than paying the lower of the two amounts.

(Results in questioned costs of $5,214 and overpayments of $8,350.)

- Reimbursement amounts to the displaced businesses for costs incurred (auctioneer fees and advertising expenses) in attempting to sell an item that will not be relocated were inconsistently determined, resulting in overpayments of more than $52,000. The auctioneer submitted checks to displaced business owners for the net proceeds (after deducting auction fees and advertising expenses) from the sale of personal property and inventory not relocated, and the City reimbursed the businesses for the amounts not recovered from sales. In some cases, HCD reported the net proceeds from sales on the claim form and deducted that amount from the reported inventory cost to determine the amount of the loss to be recovered from the City. HCD then added the cost of the sales to determine the total claim amount. In those cases, since the auctioneer had been compensated for the cost of the sales (by deducting and withholding the cost of the sale from the gross proceeds) and the City compensated the business owner for the entire inventory loss (reported inventory amount less the net proceeds from the sale), adding the cost of the sales to the claim amount resulted in overpayments to the business owners. The following example will illustrate:

Reported Cost of Inventory		$ 500,000
Gross Sales Proceeds	100,000	
Less: Amount Retained by Auctioneer	17,000	
Net Proceeds Remitted to Business Owner		83,000
Inventory Loss to be Recovered from the City		$ 417,000
Claim Paid by the City		434,000
Overpayment by the City		$ 17,000

In the above illustration, a payment of $417,000 would have compensated the displaced business owner for his entire inventory loss; the auctioneer was fully compensated by retaining $17,000 for the cost of the sale and submitting a check for the net proceeds to the business owner. Therefore, adding the $17,000 to the claim amount results in an overpayment to the business owner. Also, in one case (Tiffany Beauty Supply), the auctioneer overcharged the business owner for auction fees and subsequently submitted a refund check for $1,800 to the business owner. However, the claim amount paid by the City was based on the higher auction fee amount. The following schedule summarizes those overpayments:

Business		Overpayment
Tiffany Beauty Supply		$ 8,895
Eagle Trading		6,440
Bare Feet		3,333
Inner City Records, Inc.		17,066
Tiffany's Beauty & Gifts		3,705
Top Creations		7,210
Crazy John's		6,174
Totals		$ 52,823

(Results in overpayments of $52,823.)

- HCD did not calculate the direct loss of personal property consistently. For claims of direct loss of tangible personal property (furniture, fixtures and equipment), HCD obtains appraisals of personal property that will not be moved and obtains two bids for the estimated cost to move the personal property. HCD requests the company providing the lower of the two bids to provide separate moving cost estimates for each item with an appraised value greater than $500. HCD then compares the appraised values for each of those items to the estimated moving cost and selects the lower of the two amounts. Also, the balance of the low bid moving estimate is compared to the total of the appraised values for all items valued at less than $500, and HCD selects the lower of those two amounts. In one case (Crazy John's), however, the amount of the claim was not determined by selecting the lower of the appraised value of each item with an appraised value greater than $500 or the estimated cost to move the items, resulting in an overpayment of $11,525. In another case (N.Y. 47th Street Jewelry), estimated costs for moving certain items (jewelry display cases, glass shelves, sliding glass doors) were not obtained and compared to the appraised value of those items because they were considered to be not movable. Therefore, the City reimbursed the business owner $21,900, based on the appraised value of the items. Also, the appraised value for the items moved was compared to a low bid moving estimate of $33,250; however, the low bid estimate was $23,250. This resulted in an overpayment of $10,000.
  (Results in questioned costs of $21,900 and overpayments of $21,525.)

Recommendation #2
We recommend that the methodology and procedures used to determine the amounts paid to displaced businesses be applied consistently. We also recommend that HCD reevaluate the manner in which it calculates the amounts paid for the costs incurred in attempting to sell items that will not be relocated.

Adequate Supporting Documentation

Finding #3
Claims paid for reestablishment expenses were not supported by invoices for expenses actually incurred in relocating and reestablishing businesses at replacement sites.

Analysis
Claims paid for reestablishment expenses were not supported by invoices for expenses actually incurred in relocating and reestablishing businesses at replacement sites. Instead, the claims paid were based on estimates for those expenses. For two of the claims, there was no documentation in the files to support the estimates. In another case (New York Sewing Machine Company), the estimate consisted of a typed sheet of paper containing the name of a contractor, the various work to be done and the estimated price for the work. However, the estimate did not contain the address or phone number of the contractor, and the estimate was not signed or dated. In another case, the files contained an estimate of more than $19,000 for renovating an unfinished lodge in Windsormill, Maryland. However, according to claim forms in HCD's files, the business was moving to Central Avenue in Baltimore City. The estimate included costs to convert the one room lodge to an Artist studio with a bathroom, kitchenette, workshop, darkroom and lounge. In another case (Gimani's Hair Design), the claim for reestablishment expenses included an amount for an increase in lease/rental charges during the first two years at the replacement site; however, the amount was incorrectly calculated, resulting in an overstatement of $2,400. Also, there was no documentation contained in the files at HCD to support increased rental charges of $12,000 for Harbor Prince Jewelry. According to program guidelines, displaced businesses are entitled to receive a payment, not to exceed $10,000, for expenses actually incurred in relocating and reestablishing the business at a replacement site. In all cases, the estimates for reestablishment expenses exceeded the $10,000 maximum amount allowable; therefore, the paid claims were limited to $10,000.
(Results in questioned costs of $80,000.)

Recommendation #3
We recommend that HCD base the payments for reestablishment expenses on actual expenses incurred in relocating and reestablishing businesses at replacement sites. We also recommend that HCD require adequate documentation to support the reestablishment expenses.

Exhibit I

WEST SIDE INITIATVE
SCHEDULE OF ACQUISITION COSTS
FOR PROJECTS COMPLETED AS OF MAY 15, 2001

Parcel	Address	Highest Most Current Appraisal As Adjusted	Appraisal Obtained By Owner	Amount Paid	Disposition
E	105-109 Clay Street 210-216 N. Liberty Street 215 Park Avenue	$ 1,200,000	$ 2,750,000	$ 1,500,000	Condemnation
E	208 N. Liberty Street	195,000	240,000	220,000	Purchased
E	213 Park Avenue	22,000		27,000	Condemnation
E	207-209 Park Avenue	65,500		65,000	Condemnation
E	108 W. Lexington Street	230,000	265,000	249,500	Purchased
E	114 W. Lexington Street	240,000	300,000	282,500	Purchased
E	116-120 W. Lexington Street	625,000	900,000	850,000	Purchased
K	212 W. Lexington Street	405,000	502,000	455,000	Purchased
K	222 W. Lexington Street	235,000		246,000	Condemnation
K	224 W. Lexington Street	235,000		235,000	Condemnation
K	204-206 W. Lexington Street	280,000		280,000	Condemnation
L-1	11 N. Eutaw Street	107,000		105,000	Condemnation
L-1	13 N. Eutaw Street	142,000		142,000	Condemnation
L-1	15 N. Eutaw Street	127,000		127,000	Condemnation
L-1	17 N. Eutaw Street	160,000		160,000	Condemnation
L-1	8 N. Howard Street	6,970,000	14,700,000	6,970,000	Condemnation
L-1	300 W. Baltimore Street	450,000		450,000	Purchased
L-1	304 W. Baltimore Street	260,000		260,000	Purchased
L-1	306-316 W. Baltimore Street 307-309 W. Fayette Street	1,260,400		1,324,540	Condemnation
L-1	322 W. Baltimore Street	400,000	625,000	450,000	Condemnation
L-1	318-320 W. Baltimore Street	300,000		300,000	Condemnation
L-1	324-326 W. Baltimore Street	234,000	513,000	234,000	Condemnation
L-1	328-330 W. Baltimore Street	410,000	380,000	420,000	Purchased
L-2	10-12 N. Howard Street 14 N. Howard Street 16 N. Howard Street 18-20 N. Howard Street	1,009,100		1,115,050	Purchased
	Total	$ 15,562,000		$ 16,467,590	

Exhibit II

WEST SIDE INITIATIVE
SCHEDULE OF RELOCATION EXPENSES
FOR PROJECTS COMPLETED AS OF MAY 15, 2001

			Direct Loss of Tangible Personal Property				
Business Name	**Address**	**Moving and Related Expenses**	**Personal Property**	**Inventory**	**Re-Establishment Expenses**	**Payment in Lieu (Going out of Business)**	**Total**
Tiffany Beauty Supply	108 W. Lexington Street	$ -	$ 22,419	$ 128,906	$ -	$ -	$ 151,325
Lex Dollar Shop	212 W. Lexington Street		32,109	40,297			72,406
Charm City Hair Salon	208 N. Liberty Street	2,200	25,900	1,500			29,600
Fulton Corporation	322 W. Baltimore Street	30,500					30,500
Gimani's Hair Designs	17 N. Eutaw Street	16,400			10,000		26,400
Hippodrome Cleaners	13 N. Eutaw Street		78,130				78,130
New York Sewing Machine Company	11 N. Eutaw Street	21,000			10,000		31,000
Albert H. Jaffe & Co., Inc.	324 W. Baltimore Street		6,695				6,695
Carpet Cleaning	324 W. Baltimore Street					16,039	16,039
Allstar Photography	324 W. Baltimore Street					20,000	20,000
S.O.S. Custom Furniture	322 W. Baltimore Street					20,000	20,000
First Class Surety, Inc.	322 W. Baltimore Street					20,000	20,000
Genesis Wholesale Company	5-7-9 N. Eutaw Street		5,160	50,417			55,577
Free Lance Photographer	318 W. Baltimore Street	4,000	4,125		10,000		18,125
Antique Restoration	318 W. Baltimore Street	9,902	8,680		10,000		28,582
Martha Colburn Films	318 W. Baltimore Street	6,000	5,506				11,506
Crazy John's	304 W. Baltimore Street		85,116				85,116
Berman's Jewelry	16 N. Howard Street	28,505	16,500		10,000		55,005
Ecuador Hats	301 W. Fayette Street	37,200					37,200
Eagle Trading, Inc.	318 W. Baltimore Street		24,200	306,054			330,254
Bare Feet, Inc.	201 N. Howard Street	20,992		134,752	10,000		165,744
Tiffany's Beauty Supply	201 N. Howard Street		14,504	81,318			95,822
Inner City Records, Inc.	201 N. Howard Street		47,867	484,704			532,571
T.J.V., Inc./ King of Lexington	240-A W. Lexington Street		27,300	625,547			652,847
Lexington Fashions, Inc.	228 W. Lexington Street		25,450	145,179			170,629
Tiffany's Beauty & Gifts	232 W. Lexington Street		28,350	140,401			168,751
Queen's Wear	238 W. Lexington Street		16,291	129,806			146,097
Top Creations, Inc.	222 W. Lexington Street		27,000	139,857			166,857
N.Y. 47th Street Jewelry	224 W. Lexington Street	9,338	53,450		10,000		72,788
Harbor Prince Jewelry	201 N. Howard Street		13,736		10,000		23,736
Young's Fashions	201-C N. Howard Street					11,062	11,062
A Touch of Africa	201-E N. Howard Street					20,000	20,000
Totals		**$ 186,037**	**$ 568,488**	**$ 2,408,738**	**$ 80,000**	**$ 107,101**	**$ 3,350,364**

APPENDIX I

JOINT RESPONSE OF
THE BALTIMORE DEVELOPMENT CORPORATION
AND
THE DEPARTMENT OF
HOUSING AND COMMUNITY DEVELOPMENT

TO THE

PERFORMANCE AUDIT OF

WEST SIDE INITIATIVE
PROPERTY ACQUISITION COSTS AND
RELOCATION EXPENSES
FOR PROJECTS COMPLETED
AS OF MAY 15, 2001

AND

AUDITOR'S COMMENTS ON THE RESPONSE

BALTIMORE
DEVELOPMENT CORPORATION

MEMORANDUM

Yovonda D. Brooks, City Auditor

FROM: Sharon R. Grinnell, Chief Operating Officer
Baltimore Development Corporation

William Burgee, Director
Department of Housing and Community Development
Office of Acquisition and Relocation

DATE: January 22, 2002

SUBJECT: West Side Initiative

Thank you for taking the time to review the findings of the audit for the property acquisition and relocation expenses for the West Side Initiative with William Burgee, Director of the Office of Acquisition and Relocation, me and other staff members.

As we discussed with you, steps have already been taken and procedures put in place to insure that as we move forward with the West Side Initiative, there is consistency and documentation for every transaction in the future.

Attached please find the procedures that will be followed in conjunction with adhering to the Federal Relocation Guidelines. Also you will find information on Diversified Property Services, Inc. the firm that has been hired to handle the relocation process. This will no longer be handle by the City's Housing and Community Development Agency.

All of us who have been involved with the relocation activities for the West Side Initiative are committed to insuring that procedures, practices and accountability be consistent and clear.

Mayor Martin O'Malley, City of Baltimore, Maryland
Laurie Schwartz, Deputy Mayor, City of Baltimore, Maryland
Thurman Zollicoffer, City Solicitor, Baltimore, Maryland
M. J. Brodie, President, Baltimore Development Corporation
Paul Graziano, Commissioner, Housing & Community Development Department

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WEST SIDE INITIATIVE
ACQUISITION AND RELOCATION PROCESS

1. URBAN RENEWAL PLAN AMENDMENTS

Previous:
- Notification of meetings and City's interest in acquiring is done by 1st Class Mail.

Current:
- ALL notifications to be done by Certified Mail.

2. ACQUISITION

Previous:
- Function is outsourced to Metroventures.
- Notification of offers is sent by Certified Mail to owner.

Current:
- Continue both of the above.

3. RELOCATION

Previous:
- HCD's Office of Relocation handles function.
- Inventory payments are being handled with little oversight and documentation.
- Wholesale value is paid on all inventory.

Current:
- Outsource function to a private firm.
- Receipts required in ALL instances to verify inventory value.

****Contact has been made with Diversified Property Services, Inc. A list of the projects they have handled is attached.***

Going-out-of-Business – Direct Loss – Receipts required in all cases.

3. **RELOCATION (continued…)**

- Clothing and Attire – verified inventory (receipts and field inspections required and to be performed by the appraiser) 6 months or less, wholesale value. Seven months and more, two values determined, a depreciated value and a moving value. City offers the lower of the two.

- Jewelry and Electronics – verified inventory (receipts and field inspections required and to be performed by the appraiser) 12 months or less, wholesale value. Thirteen months and more, two bids are received, a depreciated value and a moving bid. City offers the lower of the two.

<u>Going-out-of-Business</u> – Fixed Payment.

- Up to $20,000 plus business keeps personal property and inventory.

<u>Relocated Business</u> – personal property that is determined not to be useable in the new location is valued based upon the above breakdown.

4. **SIGN-OFF**

<u>Previous</u>:
- HCD staff performs little internal review and sign-off.

<u>Current</u>:
- Relocation agent will review & sign-off on all information prepared by the appraiser. Project lead & owner for Diversified, Pat Dablock would review and sign-off on all payments and documentation. <u>ALL</u> payment requests will be reviewed and signed-off by Sharon Grinnell prior to being paid.

No payments will be approved or made without complete supporting documentation.

5. CHECK AND BALANCE SYSTEM

Previous:

- None

Current:

- A list will be sent to the City's Law Department of Investigations of completed cases. They will randomly select cases to do follow-up. My recommendation would be that 1 out of 10 would be the ratio.

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6. IMPLEMENTATION/ OVERSIGHT TEAM

Previous:

- Limited

Current:

- Bi-weekly meetings led by Sharon Grinnell, with representatives from the following entities: Mayor's Office, Comptroller's Office, Downtown Partnership, Downtown Housing Council, DPW, HCD and Law Department, to meet and discuss progress, issues and next steps. These would be my "go-to" folks in moving things forward, resolving issues, etc.
- Regular updates, during BDC's bi-weekly meetings with Mayor, Deputy Mayor Schwartz, City Solicitor Zollicoffer, M.J. Brodie, and Sharon Grinnell.

AUDITOR'S COMMENTS ON
THE JOINT RESPONSE OF
THE BALTIMORE DEVELOPMENT CORPORATION AND
THE DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT
TO THE PERFORMANCE AUDIT

The joint response of the Baltimore Development Corporation and the Department of Housing and Community Development to our performance audit and an outline of the acquisition and relocation process that will be followed are included in this appendix. The corrective action included in the response generally addresses our findings and recommendations. According to the response, steps have already been taken and procedures put in place to ensure that there will be consistency and documentation for every transaction. Also, no payments will be approved or made without complete supporting documentation. However, the response did not address one of our specific recommendations.

Procedures for Determining Claim Amounts to Reimburse Displaced Business Owners for Inventory Losses

We recommended that the payment for inventory losses be made only for tangible personal property (not claims for listings of pager customer accounts). BDC's response did not address this recommendation.